

Message Text

UNCLASSIFIED

PAGE 01 BERN 03800 01 OF 02 110919Z

11

ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 AGR-10 FEA-01 PA-02 PRS-01 /123 W

----- 056557

R 110830Z SEP 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1323

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 3800

DEPT PASS TREASURY AND FRB

GENEVA FOR MTN DELEGATION

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENT: WEEK OF AUG 31-
SEP 6

1. SUMMARY: THE SPOT DOLLAR AND THE D MARK WERE FAIRLY
STEADY THIS WEEK WHILE GOLD PRICES FELL. THE MONEY AND
CAPITAL MARKETS WERE STILL VERY LIQUID AND INTEREST RATES
CONTINUED TO DECLINE. MOST OF THE INTERESTED PARTIES
CONSULTED BY THE GOVT HAVE APPROVED THE PROPOSED NEW
VALUE-ADDED TAX AND DRAFT LEGISLATION WILL BE SENT TO
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 03800 01 OF 02 110919Z

PARLIAMENT DURING THE MAR 1976 SESSION. IF ALL GOES ACCORDING

TO PLAN, THE VAT WILL ENTER INTO FORCE AT THE END OF 1977 OR EARLY 1978. FINANCE MINISTER CHEVALLAZ PREDICTS THAT SWISS ECONOMIC RECOVERY WILL BE LEAD BY RISING DOMESTIC CONSUMPTION RATHER THAN INCREASED EXPORTS. BOTH THE WHOLESALE AND CONSUMER PRICE INDICES ROSE SLIGHT IN AUG; THE YEAR-TO-YEAR INCREASE IN CONSUMER PRICES WAS 6.7 PERCENT IN AUG.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: DESPITE SOME CONCERN ABOUT THE FINANCIAL PROBLEMS OF NEW YORK CITY, THE ZURICH FOREIGN EXCHANGE MARKET WAS CALM THIS WEEK AND THE SPOT DOLLAR WAS RELATIVELY STABLE. THE D MARK WAS ALSO QUITE STABLE BUT AT A LEVEL MUCH LOWER THAN THE SWISS NATIONAL BANK WOULD PREFER. THE IMF AGREEMENT ON GOLD GENERATED FEARS OF FUTURE GOLD SALES AND THE ZURICH MARKET WAS HIT BY A WAVE OF HEAVY SELLING. PRICES DROPPED TO A LOW OF \$148.50 ON SEP 2 BUT RECOVERED SOMEWHAT BY THE WEEK'S END. RATES AS FOLLOWS:

	9/1 (OPEN)	9/5 (CLOSE)
SPOT DOLLAR	SF 2,6865	SF 2,6815
FORWARD DISCOUNTS (PCT. P.A)		
ONE MONTH	- 5.4	- 4.5
3 MONTHS	- 5.2	- 4.8
6 MONTHS	- 4.7	- 4.4
SF/DM	SF 103.96	SF 103.81
GOLD	\$155.00	\$152.75

3. MONEY AND CAPITAL MARKETS: THE MARKETS ARE STILL VERY LIQUID AND THE CALL MONEY RATE WAS UNCHANGED AT 0.25 PERCENT THROUGHOUT THE WEEK. INTEREST RATES CONTINUE TO DECLINE AND THE BANKS HAVE ANNOUNCED THAT THEIR PRIVATE DISCOUNT RATE WILL BE REDUCED FROM 6.0 TO 5.5 PERCENT ON SEP 8. STOCK MARKET TURNOVER WAS LOW AND PRICES STEADY; THE SKA INDEX WAS 180.5 (END 1959 EQUALS 100) ON SEP 5. THE SWISS NATIONAL BANK (SNB) HAS ANNOUNCED THAT THE CEILING ON FOREIGN LOANS WILL BE SF 400 MILLION FOR SEP-OCT WHICH IS THE SAME AMOUNT AS THE JUL-AUG LIMIT. THE FEDERAL

UNCLASSIFIED

PAGE 03 BERN 03800 01 OF 02 110919Z

GOVT HAS CHANGED ITS MIND ON ITS NEW BOND ISSUE; INSTEAD OF THE TWO-PART ISSUE REPORTED LAST WEEK (BERN 3677), THE CONFEDERATION'S NEW ISSUE WILL BE A STRAIGHT 15-YEAR LOAN OF SF 300 MILLION WITH A COUPON OF 6.5 PERCENT. THE BONDS WILL BE SOLD AT PAR DURING THE PERIOD SEP 11-17. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS DROPPED FROM 6.18 PERCENT ON AUG 29 TO 6.08 PERCENT ON SEP 5.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BERN 03800 02 OF 02 110940Z

11

ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 AGR-10 FEA-01 PA-02 PRS-01 /123 W

----- 056754

R 110830Z SEP 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1324

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS SECTION 2 OF 2 BERN 3800

DEPT PASS TREASURY AND FRB

GENEVA FOR MTN DELEGATION

4. VALUE-ADDED TAX: THE FEDERAL COUNCIL HAS NOW COMPLETED ITS CONSULTATIONS WITH VARIOUS INTERESTED PARTIES ON THE PROPOSED INTRODUCTION OF A VALUE-ADDED TAX (VAT) IN SWITZERLAND. WHILE A MAJORITY OF THE ECONOMIC AND POLITICAL ORGANIZATIONS CONSULTED APPROVED THE NEW TAX (WHICH WILL REPLACE THE PRESENT WHOLESALE AND RETAIL TURNOVER TAXES), THE ORGANIZATION OF SMALL BUSINESSMEN AND REPRESENTATIVES OF THE TOURIST AND HOTEL INDUSTRIES WERE OPPOSED. THE FEDERAL COUNCIL NOW PLANS TO SEND DRAFT LEGISLATION TO THE PARLIAMENT DURING THE MAR 1976 SESSION FOR AN "ACCELERATED LEGISLATIVE PROCESS." THE

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 03800 02 OF 02 110940Z

BILL EMERGING FROM PARLIAMENT WILL BE SUBMITTED TO A NATIONAL REFERENDUM IN DEC 1976 OR MAR 1977. IF APPROVED BY THE PUBLIC, THE VAT WILL ENTER INTO FORCE AT THE END OF 1977 OR EARLY 1978. IN A PRESS CONFERENCE HELD THIS WEEK, FINANCE MINISTER CHEVALLAZ SAID THE ADDITIONAL REVENUES GENERATED BY A VAT WERE NEEDED TO HELP RESOLVE THE CONFEDERATION'S BUDGET PROBLEMS. THE MINISTER INDICATED THAT THE CONFEDERATION'S BUDGET DEFICIT AT THIS YEAR WOULD BE AROUND SF 1 BILLION, OR MORE THAN TWICE THE DEFICIT IN THE BUDGET APPROVED BY THE PARLIAMENT. WHILE NO SPECIFIC RATE HAS YET BEEN DETERMINED FOR THE NEW VAT, MINISTER CHEVALLAZ EXPRESSED THE HOPE THAT THE CONFEDERATION WILL BE GIVEN A DEGREE OF FLEXIBILITY TO ADJUST THE RATE TO MEET CHANGING ECONOMIC CONDITIONS.

5. SNB STATE OF ACCOUNT FOR AUG: MAJOR CHANGES SHOWN BELOW REFLECT THE VERY LIQUID STATE OF THE SWISS BANKING SYSTEM. THE INCREASE IN THE LEVEL OF FOREIGN EXCHANGE HOLDINGS REPRESENTS THE EXCESS OF SNB INTERVENTION OVER THE REQUIRED CONVERSION OF FOREIGN LOANS. THE DROP IN COMMERCIAL AND LOMBARD LOANS INDICATES THAT THE BANKS HAD MORE THAN ENOUGH INTERNAL LIQUIDITY FOR THE END OF AUG WINDOW DRESSING. THE GIRO ACCOUNTS BALANCE (COMMERCIAL BANK CLEARING ACCOUNTS WITH THE SNB) ALSO INDICATES A HIGH LEVEL OF LIQUIDITY FOR THIS TIME OF THE YEAR.

AUG 29 CHANGE FROM JUL 31
(MILLIONS OF SWISS FRANCS)

ASSETS

GOLD	11,892.7	--
F/X	10,019.3	UP 294.4
ROSSA BONDS	5,403.0	--
COMMERCIAL LOANS	774.0	DOWN 243.7
LOMBARD LOANS	15.1	DOWN 183.7
OTHER	902.9	DOWN 153.2

LIABILITIES

NOTES IN CIRCULATION

	17,622.4	UP 135.5
--	----------	----------

GIRO ACCOUNTS	6,258.7	DOWN 76.6
---------------	---------	-----------

RESERVES (FOREIGN

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 03800 02 OF 02 110940Z

LIABILITIES)	194.8	DOWN 27.3
--------------	-------	-----------

PENALTY DEPOSITS	505.9		DOWN 351.4
OTHER	4,425.2	UP 33.6	
BALANCE SHEET TOTS	29,007.0		DOWN 286.2

ECONOMIC

6. CHEVALLAZ COMMENTS ON RECESSION: IN A PRESS INTERVIEW EARLY THIS WEEK, FINANCE MIN CHEVALLAZ SAID THAT RECOVERY OF THE SWISS ECONOMY WAS MORE DEPENDENT ON AN INCREASE IN DOMESTIC CONSUMPTION THAN ON A RISE IN EXPORTS. THIS VIEW DIFFERS FROM THAT OF MOST OTHER OBSERVERS OF THE SWISS ECONOMIC SCENE WHO PREDICATE A PICKUP IN ECONOMIC ACTIVITY ON AN INCREASE IN FOREIGN DEMAND FOR SWISS PRODUCTS. MIN CHEVALLAZ WARNED, HOWEVER, THAT EVEN WHEN THE CURRENT RECESSION ENDS, THE SWISS PEOPLE SHOULD NOT COUNT ON A RESUMPTION OF THE HIGH RATE OF ECONOMIC GROWTH EXPERIENCED OVER THE PAST 25 YEARS. IN RECENT YEARS THIS GROWTH HAS BEEN FINANCED LARGELY BY INFLATION. FUTURE GROWTH WILL PROBABLY BE LESS RAPID AND MORE IN ACCORD WITH SWITZERLAND'S NEEDS AND POTENTIAL.

7. CONSUMER AND WHOLESALE PRICES RISE IN AUG: AFTER DECLINING SLIGHTLY IN JUL, CONSUMER PRICES ROSE 0.3 PERCENT IN AUG WHEN THE INDEX REACHED 163.9 (SEP 1966 EQUALS 100). OVER THE PAST 12 MONTHS THE CONSUMER PRICE INDEX HAS INCREASED 6.7 PERCENT. THE WHOLESALE PRICE INDEX, WHICH HAD DECLINED STEADILY FOR THE PREVIOUS 8 MONTHS, ROSE 0.1 PERCENT IN AUG TO REACH 147.9 (1963 EQUALS 100). SINCE LAST AUG, HOWEVER, THE WHOSESALE INDEX HAS REGISTERED A DROP OF 3.6 PERCENT.

ODELL

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BERN03800
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750314-0863
From: BERN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750959/aaaacagj.tel
Line Count: 253
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 31 MAR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 MAR 2003 by MaustMC>; APPROVED <29 JAN 2004 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL AND ECONOMIC DEVELOPMENT: WEEK OF AUG 31- SEP 6
TAGS: EFIN, ECON, SZ
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006